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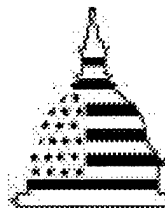
# PUBLIC-PRIVATE COMPETITIONS

## Reasonable Processes Used for San Antonio Engine Depot Maintenance Award



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United States General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-282343.2

May 27, 1999

The Honorable John Warner  
Chairman  
The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Floyd Spence  
Chairman  
The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

This report is a redacted version of a report issued on April 1, 1999, which contained procurement sensitive information. This report responds to one of several requirements in the National Defense Authorization Act for Fiscal Year 1998 relating to depot maintenance activities.<sup>1</sup> As required, we reviewed the Air Force's selection of a source of repair for depot maintenance work at the closing San Antonio Air Logistics Center, Kelly Air Force Base, Texas.<sup>2</sup> Specifically, we assessed whether (1) the Air Force's procedures for conducting the San Antonio competition provided a substantially equal opportunity for the public and private offerors to compete for the work without regard to performance location, (2) procedures for conducting the competition were in compliance with 10 U.S.C. 2469a and other applicable laws and regulations, (3) appropriate consideration was given to factors other than cost, and (4) the award resulted in the lowest total cost to the Department of Defense (DOD) for performance of the work.

<sup>1</sup>Appendix I lists the depot maintenance reporting requirements contained in the act.

<sup>2</sup>The engine competition workload included F100 turbine engine (noncore work), TF39 turbine engine, T56 turbine engine, fuel accessories, engine electronics, TF39 two-level maintenance, and T56 two-level maintenance.

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## Results in Brief

The processes used for the San Antonio engine maintenance competition award were reasonable. Specifically, (1) the competition procedures provided an equal opportunity for public and private competitors without regard to where the work could be performed; (2) the procedures did not deviate in any material respect from applicable laws and regulations; (3) the Air Force appropriately considered factors other than cost in the selection; and (4) within the framework set forth for the competition, the award resulted in the lowest total cost to DOD for performance of the work.

We also identified several methodological and process issues related to the cost evaluations that, while not materially affecting the selection, may be useful for the Air Force to consider in future competitions.

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## Background

As the result of a 1995 Base Realignment and Closure decision, the Sacramento and San Antonio Air Logistics Centers, including their maintenance depots, are to close by 2001. To mitigate the impact of the closings on the local communities and employees, the administration announced its intention to maintain employment levels by privatizing the maintenance depots' workloads in place at each location. As a result, the Air Force announced a strategy to privatize in place five prototype depot maintenance work packages at the two closing centers. In response to congressional concerns regarding this strategy, the Air Force decided to use public-private competitions to determine the most cost-effective source of repair for the closing maintenance depots' work. Appendix II provides a more detailed description of the closure history for both centers.

On March 20, 1998, the Air Force issued a solicitation for the purpose of conducting a public-private competition for multiple engine depot maintenance workloads being performed at the San Antonio Air Logistics Center.<sup>3</sup> The Air Force received one private sector proposal from Pratt & Whitney San Antonio Engine Services Corporation, which had General Electric Company, Allison/Rolls Royce/Standard Aero, Allied Signal, and

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<sup>3</sup>A small portion of San Antonio's workload was transferred to other DOD depots outside the competition process. For example, F100 workloads identified as core (this refers to work that is to be performed in a DOD facility) were transferred outside the competition process to the Oklahoma City depot. Additionally, core workloads from the nuclear weapons directorate were transferred to the Ogden Air Logistics Center in Utah.

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Caterpillar Logistics as major subcontractors. Also, one public sector proposal was received from the Air Force's Oklahoma City Air Logistics Center, which was teamed with Lockheed Martin Kelly Aircraft Company. Lockheed Martin's major subcontractors were Standard Aero Limited, Chromalloy Gas Turbine, and Woodward Governor.

The Air Force planned to make an award in October 1998. However, the award decision was delayed based on the evaluation team's concerns regarding certain pricing data received from both offerors. Consequently, the Air Force issued a solicitation amendment on September 28, 1998, that required detailed cost information for high-dollar contract line items. Revised best and final offers were submitted by both offerors on January 16, 1999. On February 12, 1999, the Air Force selected the Oklahoma City Air Logistics Center's proposal as representing the best value to the government.

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### **San Antonio Air Force Depot Competition Placed No Limitation on Performance Location**

Under 10 U.S.C. 2469a(d), a competitor must be allowed to perform at the location of its choosing and is not to be given preferential treatment for or be limited to performing the work in place or at any other single location. On the basis of our review of the San Antonio engine competition evaluation and selection documents, we found no basis to conclude that the procedures did not provide a substantially equal opportunity for the offerors to compete without regard to performance location. For example, in its evaluation the Air Force expressed concern about the risks inherent in Oklahoma City's plan to transition the F100 engine work to its facilities at Oklahoma City. This concern was based on legitimate performance considerations regarding the availability of trained workers and did not reflect a bias toward performing the work at the closing San Antonio facility. Appendix III provides the details of our legal analysis.

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### **Competition Procedures Complied With Applicable Laws and Regulations**

Overall, the Air Force's evaluation and selection of Oklahoma City were reasonable, fair, and consistent with the solicitation and the depot competition procedures. We found no reason to conclude that the competition procedures used deviated in a material way from 10 U.S.C. 2469a and other applicable laws and regulations. (See app. III for our detailed legal analysis.) In assessing the Air Force's compliance with applicable laws and regulations relating to the competition for San Antonio's work, we reviewed the Air Force's evaluation of the proposals and the selection in the context of applicable laws and regulations.

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This review included examining documents, reviewing processes and procedures, and discussing the competition with Air Force officials.

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### Competition Procedures

The Air Force materially complied with the required procedures. For example, pursuant to 10 U.S.C. 2469a and its depot competition procedures, the Air Force issued the solicitation under Federal Acquisition Regulation (FAR) part 12, which prescribes the policies and procedures for the acquisition of commercial items and FAR part 15, which sets forth the source selection procedures for competitively negotiated acquisitions. Also, as required by the law, the solicitation called for proposals from public and private sector sources for aircraft engine maintenance work currently being performed at the closing San Antonio Air Logistics Center. Further, consistent with applicable law, the solicitation provided for award to the public or private competitor that was responsible and whose proposal conformed to the solicitation and represented the best value to the government.

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### Applicable Laws and Regulations

The Air Force materially complied with applicable laws and regulations. Several statutes, in particular 10 U.S.C. 2469a, govern the solicitation and award process for public-private competitions for depot workloads of the closing San Antonio and Sacramento Air Logistics Centers. Because the Air Force used the competitive acquisition system, the standards in chapter 137 of title 10 of the United States Code and the FAR apply to the extent they are consistent with 10 U.S.C. 2469a and the other applicable provisions relating to the outsourcing of depot workloads. Consistent with these standards, the Air Force followed the criteria announced in the solicitation, which included those required by 10 U.S.C. 2469a, and exercised its judgment in a reasonable manner in selecting the successful competitor.

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### Air Force Considered Factors Other Than Cost

While the competitor selected represented the lowest evaluated cost to the government, the Air Force considered the relative merits of the technical and management approaches of both proposals. For example, the Air Force

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considered Pratt & Whitney's "reliability centered maintenance"<sup>4</sup> approach combined with its warranties and guaranties to be a benefit. On the other hand, the Air Force concluded that Oklahoma City's plan to perform in-house a number of repair processes currently contracted out was risky, largely because of the proposed qualification schedule. Thus, for these and other reasons, we found no basis to conclude that factors other than cost were not appropriately considered. (See app. III for our detailed legal analysis.)

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## Evaluation Resulted in the Lowest Total Cost to the Government

Overall, the San Antonio engine competition cost evaluation results were reasonable. The Air Force awarded the Oklahoma Air Logistics Center the multiple engine depot maintenance workload. Oklahoma City's total evaluated cost of \$10,516,225,557 was about 5 percent less than Pratt & Whitney's evaluated cost of \$11,066,342,080.

While not affecting the selection, we do question the accuracy and completeness of some of the estimates used in the evaluation. The cumulative dollar impact of our findings is not significant enough to eliminate the \$550-million difference between the total evaluated costs of the offerors. The areas where we have questions about the accuracy and completeness of evaluated costs include (1) overhead, (2) depreciation of government-furnished equipment, (3) warehouse services, (4) material, (5) fair market value of government-furnished equipment, and (6) warranties.

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## Cost Evaluation Was Reasonable

The overall San Antonio engine cost evaluation was reasonable. We reviewed the accuracy and soundness of the data, assumptions, and methodology supporting selected items in the evaluation. To do this, we analyzed the key cost elements in each proposal and the final adjustments the Air Force made. We selected cost elements having variances of 10 percent or more between the competitors or between amounts contained in the competitors' final proposals versus the final evaluated cost estimated by the evaluation team. For these cost elements, we (1) held discussions with the cost evaluation team regarding the methodology used in determining the evaluated cost; (2) reviewed the calculations and

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<sup>4</sup>Reliability centered maintenance was defined in Pratt & Whitney's proposal as an approach for implementing improved maintenance practices and rapidly incorporating design and configuration modifications that would improve engine reliability.

supporting documentation for the various cost elements; (3) on a selective basis, independently verified data to corroborate the evaluated cost estimates; and (4) discussed competition issues with the public offeror. We question several of the cost estimates and present them here as information for the Air Force to consider in future competitions.

### Overhead Savings Are Understated

The evaluation team's calculation of the public offeror's overhead savings is understated.<sup>5</sup> Correcting this understatement would decrease the total evaluated cost of the public offeror because the team considered some costs as variable when they should have been treated as fixed or partially fixed. Oklahoma City's estimate of overhead savings was reduced by 65 percent.

During the early stages of the evaluation process, the evaluation team initially reduced Oklahoma City's overhead savings estimate to \$210.6 million. The team determined that the averaging technique used by Oklahoma City did not accurately estimate overhead savings and developed its own methodology. While we agree that the Oklahoma City estimate was inaccurate, the approach used by the evaluation team understated overhead savings. For example, in the commodity directorate, the evaluation team's calculations assumed that the \$15.5 million in annual shop equipment depreciation was 100 percent variable and would increase on a directly proportional basis as additional workload is added. Using this assumption, rates for equipment depreciation expense would remain constant, and no overhead savings would result from adding workload.

However, this assumption is inaccurate. We reviewed shop equipment depreciation data to determine the impact that added workload would have on Oklahoma City's cost projections. We found that the estimated shop equipment depreciation did not increase as much as the cost evaluation team assumed. The data we reviewed showed that equipment depreciation was fixed and would result in a reduced overhead cost for each unit produced as workload was added. We estimated that overhead savings in the commodity and propulsion directorates were understated by about \$5 million per year, or about \$67 million over the performance period.<sup>6</sup> We

<sup>5</sup>Understated means that the evaluated cost would be lower than that estimated by the evaluation team. Conversely, overstated means that the evaluated cost would be higher than that estimated by the evaluation team.

<sup>6</sup>The basic performance period is 7 years, which may be extended up to 15 years.

did not estimate the total effect of the team's cost assumptions on the remaining expense categories.

In the final stage of the selection process, the source selection authority further reduced Oklahoma City's overhead savings from \$210.6 million to \$138.6 million to reflect the uncertainty in achieving overhead savings in the latter years of the performance period. In this regard, the final evaluated overhead savings estimate for the public offeror was understated because the evaluation team's error in the early phase of the final process was reflected in the source selection authority's final decision.

Government-Furnished  
Equipment Depreciation Cost  
Understated

Government-furnished equipment depreciation is understated for both offerors. Correcting this understatement would increase the total evaluated cost of both offerors. Our review of the supporting data shows that the Air Force's calculations of depreciation were not consistent with the stated methodology and differed between offerors. These errors resulted in a \$22.7 million understatement of Oklahoma City's depreciation costs and a \$9.9 million understatement of Pratt & Whitney's depreciation costs.

The evaluation team increased Oklahoma's evaluated cost by \$15.7 million and Pratt & Whitney's evaluated cost by \$2.3 million to reflect the depreciation cost associated with government-furnished equipment. The depreciation adjustment was to account for equipment with an acquisition cost of \$100,000 or greater provided by the government directly to a private contractor and depreciated over a period of 12 years with no residual value. The Air Force stated that its depreciation adjustment was based on applying an average annual equipment depreciation value to account for replacing retired equipment with new equipment during the performance period.

The evaluation team's stated methodology for calculating depreciation for government-furnished equipment was to calculate the average annual depreciation and apply this average to the performance period. Instead, for the public offeror, the team used a different approach. It totaled the undepreciated book value of all government-furnished equipment items valued at \$100,000 or more. We estimated the depreciation adjustment using the team's stated methodology to be \$38.4 million versus the \$15.7 million estimate made by the evaluation team—for a difference of \$22.7 million. The evaluation team members were uncertain why this error occurred.



The evaluation team used its stated methodology in evaluating the private offeror's government-furnished equipment depreciation. However, the team did not include all applicable equipment items in its calculations. Additionally, the team made an error in its averaging calculations. We determined that the equipment depreciation expense should have been \$12.2 million instead of the \$2.3 million used—an understatement of \$9.9 million.

#### Fair Market Value of Equipment to Private Offerors Was Understated

The evaluation team understated the cost of government-furnished equipment for the public offeror's private partners. Correcting this understatement would have increased the total evaluated cost of the public offeror. We were unable to estimate the value of this understatement because the Air Force is uncertain how much of this equipment will be used or its fair market value. The acquisition cost of this equipment is reported at about \$126.6 million.

The Fiscal Year 1998 Defense Authorization Act provides that the evaluators give consideration to the fair market value of land, plant, or equipment used by a private offeror to perform competition workloads from a closing military installation. While the evaluation team considered the fair market value of equipment to be used by the private offeror's team, it did not consider the fair market value of equipment to be used by the private sector members of the public offeror's team.

#### Warehousing Adjustment Overstated

The evaluation team overstated the warehousing function adjustment for the public offeror by about \$16.6 million, or about 57 percent. Correcting this overstatement would reduce the total evaluated cost of the public offeror. The overstatement resulted from (1) using an incorrect amount to represent the warehousing services rate charges and (2) assuming incorrectly that all warehousing costs are variable.

The Defense Logistics Agency provides the Air Force warehousing services, such as storing, issuing, and receiving inventory. The logistics agency charges customers standard prices that are computed annually for each type of service. The evaluation team concluded that the Oklahoma City offer did not include the cost associated with the logistics agency's warehousing function. The team estimated that the warehousing function cost should be about \$28.7 million.

However, the team's estimate was overstated by about \$16.6-million for two reasons. First, it used incorrect source data, resulting in a \$2.5-million overstatement. Second, the team incorrectly assumed that all logistics

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agency warehousing costs are variable, resulting in a \$14.1-million overstatement. Our prior work shows that no more than 51 percent of costs for the warehousing function are variable.<sup>7</sup>

### Material Cost Adjustment Is Questionable

We question one part of the methodology used to compute material cost adjustment. It is unclear whether correcting this adjustment would increase or decrease the total evaluated cost of the public offeror. Specifically, the evaluation team used an inappropriate indicator as a basis for computing the adjustment for the public offeror. To compute \$110.8 million of the \$175.8-million material cost adjustment, the evaluation team used an overhead management cost factor that is not related to the depot's material costs.<sup>8</sup> This cost factor is not an indicator of historical material cost performance, and it was not a reliable basis for the material cost adjustment.

### Other Risks Associated With Warranties and Guaranties Could Have Been Considered

The evaluation team could have considered another factor in evaluating the credit provided to both offerors for warranties and guaranties. While substantial reductions were made in the evaluation of the private offeror's warranties and guaranties, we noted that the methodology did not account for the risk that the government might not realize all estimated warranty and guaranty benefits. Our prior work shows that such risks exist. Addressing this factor could have increased the total evaluated cost of each offeror.

The evaluation team estimated that Pratt & Whitney's proposed engine reliability improvements and the associated warranties and guaranties contained in their proposal could be worth as much as \$608 million to the Air Force. However, the source selection authority determined that most of the associated savings were to occur in the latter part of the program. Therefore, the source selection authority reduced the warranties and guaranties estimate by \$359 million to reflect the fact that Pratt & Whitney might not qualify for the entire 15-year performance period under the award-term provisions.

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<sup>7</sup>Public-Private Competition: Processes Used for Sacramento Depot Maintenance Award Appear Reasonable. (GAO/NSIAD-99-42, Nov. 23, 1998).

<sup>8</sup>This factor is for overhead costs not directly related to the depot's operations, such as the charge to the depots for the Joint Logistics Systems Center.

The evaluation team used historic failure rates and projected engine usage rates to estimate the value of Pratt & Whitney's warranties and guaranties. However, it did not assess the Air Force's historic realization of such warranties or historic administrative costs. In 1996, we reported<sup>9</sup> that Air Force cost-benefit analyses of warranties were inadequate because the analyses assumed all potential defects would be identified and claims submitted. At that time, the Air Force estimated that 80 to 85 percent of failures subject to warranty benefits go unreported. Additionally, in cases where claims data were available for our review, we reported that the warranty price paid exceeded the value of the claims made against the warranty. For example, the combined warranty price was \$94 million, the value of the warranty claims was \$5 million, and the quantified price exceeded the quantified benefit by \$89 million.

The warranty credit given to Oklahoma City in the evaluated cost was \$3.6 million. Therefore, any adjustment to warranty claim risk would be limited to this amount.

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## Conclusions

The processes used for the San Antonio engine depot maintenance award were reasonable. The Air Force materially complied with the requirements of applicable laws and regulations in the competition for depot maintenance work at the San Antonio Air Logistics Center. While not affecting the selection, some cost estimates used in the evaluation could have been more accurate and complete. These cost estimates relate to overhead, government-furnished equipment depreciation, warehousing services, material, fair market value of government-furnished equipment, and warranties. The issues that are related to these cost estimates provide information for the Air Force to consider in its future competitions.

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## Agency Comments

Air Force officials reviewed a draft of this report. They agreed with our conclusion that the Air Force followed the criteria announced in the solicitation and exercised sound judgment in selecting the successful competitor for the San Antonio workloads. They generally disagreed with our conclusions that the savings to the government were understated and with our observations regarding the accuracy and completeness of costs for depreciation of government-furnished equipment, warehouse services,

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<sup>9</sup>Weapons Acquisition: Warranty Law Should Be Repealed (GAO/NSIAD-96-88, June 28, 1996.)

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material, fair market value of government-furnished equipment, and warranties. Air Force officials said that they recognized the time constraints associated with this report, and as such, they could only provide general comments at this time.

We will need further information to comment on the areas where the Air Force disagrees with our report. The Air Force said it would provide a detailed reply to each of the cost issues at a later date. We will evaluate and report, as appropriate, on any additional information provided in response to this report. Not having specific information about procurement sensitive information, we have marked the report to indicate that the entire report must be safeguarded.

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## Scope and Methodology

In conducting our work, we obtained information from and interviewed officials at Headquarters, U.S. Air Force, Washington, D.C.; Headquarters, Air Force Materiel Command, Wright Patterson Air Force Base, Ohio; the San Antonio Air Logistics Center, Kelly Air Force Base, Texas; the Oklahoma City Air Logistics Center, Tinker Air Force Base, Oklahoma; and the Defense Contract Audit Agency, Ogden, Utah. We offered to discuss the San Antonio engine competition and award issues with both the public and private competitors; however, the private offeror declined.

To analyze the Air Force's decision to award the San Antonio depot maintenance workload to the Oklahoma City Air Logistics Center, we interviewed officials and collected relevant documents from Headquarters, Department of the Air Force; Headquarters, Air Force Materiel Command; Air Force source selection team members; representatives from the public competitor; the independent advisors to the source selection authority; and the Defense Contract Audit Agency. To verify compliance with the San Antonio engine competition and selection with applicable laws and regulations, our Office of General Counsel performed a legal compliance review.

To determine whether cost elements considered in the source selection evaluation were complete and reasonable, we discussed the selection structure with cognizant Air Force and DOD officials, as well as with representatives of the public offeror. We also reviewed the evaluation team's calculating methods for the various cost elements for reasonableness and compared the cost elements between competitors to identify material drivers and to further test for reasonableness. We discussed with the evaluation team members their rationale for treating

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cost elements in the evaluation and in some cases recalculated cost estimates.

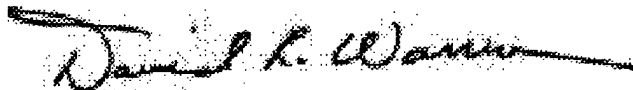
We performed our review between September 1998 and March 1999 in accordance with generally accepted government auditing standards.

A list of our related reports is provided at the end of this report.

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We are sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable F. W. Peters, Acting Secretary of the Air Force; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and interested congressional committees and members.

Please contact me at (202) 512-8412 if you or your staff have questions concerning this report. The major contributors to this report are listed in appendix IV.

A handwritten signature in dark ink, appearing to read "David R. Warren", with a long horizontal flourish extending to the right.

David R. Warren, Director  
Defense Management Issues

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## Abbreviations

ALC	Air Logistics Center
BRAC	Base Realignment and Closure
DOD	Department of Defense
GKDC	Greater Kelly Development Corporation
RFP	request for proposal
SSA	Source Selection Authority
SSAC	Source Selection Advisory Council

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# Summary of Depot Reporting Requirements in the National Defense Authorization Act for Fiscal Year 1998

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The National Defense Authorization Act for Fiscal Year 1998 contained the following depot-related reporting requirements for our office.

## I. Report on DOD's Compliance With 50-Percent Limitation (Section 358)

The act amended 10 U.S.C. 2466(a) by increasing from 40 to 50 percent the amount of depot-level maintenance and repair workload funds that the Department of Defense (DOD) can use for contractor performance and revised 10 U.S.C. 2466(e) by requiring the Secretary of Defense to submit to Congress by February 1, 1998, a report identifying the percentage of funds expended for contractor performance.

Within 90 days of DOD's annual report to Congress, we were required to review DOD's report and inform Congress whether DOD had complied with the 50-percent limitation.

## II. Reports Concerning Public-Private Competitions for the Depot Maintenance Workloads at the Closing San Antonio and Sacramento Air Logistics Centers (Section 359)

The act added section 2469a to title 10 the United States Code to provide for special procedures for public-private competitions concerning the workloads of these two closing depots. It also required us to issue four reports.

First, within 60 days of its enactment, the 1998 Defense Authorization Act required us to review the C-5 aircraft workload competition and subsequent award and report to Congress on whether (1) the procedures used provided an equal opportunity for offerors to compete without regard to performance location, (2) the procedures complied with applicable law and the Federal Acquisition Regulation, and (3) the award resulted in the lowest total cost to DOD.

Second, the act required the Secretary of Defense to submit a determination to Congress if any of the workloads were bundled in a single solicitation. We were required to report our views on the DOD determination within 30 days.

Third, the act required us to review all DOD solicitations for the workloads at the San Antonio and Sacramento Air Logistics Centers and report to Congress within 45 days of the solicitations' issuance whether the

solicitations provided "substantially equal" opportunity to compete without regard to performance location and otherwise complied with applicable laws and regulations.

Fourth, the act required us to (1) review all DOD awards for the workloads at the two closing Centers and report to Congress within 45 days of the contract award whether (1) the procedures used complied with applicable laws and regulations and provided a "substantially equal" opportunity to compete without regard to performance location, (2) "appropriate consideration was given to factors other than cost" in the selection, and (3) the selection resulted in the lowest total cost to DOD for performance of the workloads.

This report addresses the fourth requirement for the award of the aircraft engine workload at the San Antonio Air Logistics Center.

# San Antonio and Sacramento Air Logistic Centers' Closure History

The 1995 Base Realignment and Closure (BRAC) Commission recommended closing the Sacramento and San Antonio Air Logistics Centers and transferring their workloads to the remaining depots or to private sector commercial activities. In making these recommendations, the Commission considered the effects of the closures on the local communities, on workload transfer costs, and the potential effects on readiness and concluded that the savings and benefits outweighed the drawbacks. The Commission's report noted that given the significant amount of excess depot capacity and limited DOD resources, closure was a necessity and would increase the use of the remaining centers and substantially reduce DOD operating costs. The specific Commission recommendations were as follows:

- Realign Kelly Air Force Base, including the air logistics center; disestablish the defense distribution depot; consolidate the workloads to other DOD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council;<sup>1</sup> and move the required equipment and personnel to the receiving locations.
- Close McClellan Air Force Base, including the air logistics center; disestablish the defense distribution depot; move the common-use ground communication electronics to Tobyhanna Army Depot, Pennsylvania; retain the radiation center and make it available for dual use and/or research, or close as appropriate; consolidate the remaining workloads with other DOD depots or private sector commercial activities as determined by the Council; and move the required equipment and any required personnel to receiving locations. All other activities and facilities at the base were to close.

In considering the BRAC recommendations to close the two centers, the President and the Secretary of Defense expressed concerns about the near-term costs and potential effects on local communities and Air Force readiness. In response to these concerns, the President, in forwarding the Commission's recommendations to Congress, indicated that the air logistics centers' work should be privatized in place or in the local communities. He also directed the Secretary of Defense to retain 8,700 jobs at McClellan Air Force Base, which had been recommended for closure, and 16,000 jobs at Kelly Air Force Base, which had been recommended for realignment, until 2001 to further mitigate the closures' impact on the local

<sup>1</sup>The Defense Depot Maintenance Council is a senior-level council established to advise the Deputy Under Secretary of Defense for Logistics on depot maintenance within DOD.

communities. Additionally, the size of the workforce remaining in the Sacramento and San Antonio areas through 2004 was expected to remain above 4,350 and 11,000, respectively.

The Air Force initially focused on privatizing five prototype workloads—three at Sacramento (for hydraulics, electric accessories, and software) and two at San Antonio (for C-5 aircraft paint/depaint and fuel accessories). The Defense Depot Maintenance Council approved the Air Force's plans for the five prototype workloads on February 1, 1996. The prototype workloads involved about 11 percent of the San Antonio depot's maintenance personnel and about 27 percent of Sacramento's personnel.<sup>2</sup>

Shortly after the Council approved the prototype program, the concept's appropriateness was questioned. Community and industry groups expressed an interest in having larger packages, and DOD officials were concerned about the cost of administering a large number of smaller contracts. Implementation of the prototype program was put on hold in May 1996 as the Air Force considered various options. In April 1996, we testified that, if not effectively managed, privatizing depot maintenance activities, including the downsizing of remaining DOD depot infrastructure, could exacerbate excess capacity problems and the inefficiencies inherent in underused depot maintenance capacity. Privatizing workloads in place at two closing Air Force depots would not reduce the excess capacity in the remaining depots or the private sector and consequently would not be a cost-effective approach to reducing depot infrastructure.<sup>3</sup> Later that year, we reported that privatizing in place, rather than closing and transferring the depot maintenance workloads at the Sacramento and San Antonio centers, would leave the Air Force with costly excess capacity at its remaining depots that a workload consolidation would mitigate.<sup>4</sup> Our analysis showed that transferring the depot maintenance workloads to other depots could yield additional economy and efficiency savings of over \$200 million annually. We recommended that the Secretary of Defense require the Secretary of the Air Force to take the following actions:

- Before privatizing any Sacramento or San Antonio workload, complete a cost analysis that considers the savings potential of consolidating the

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<sup>2</sup>The BRAC report specified that the Council should determine where depot maintenance workloads from closing Air Force depots should be moved.

<sup>3</sup>Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996) and (GAO/T-NSIAD-96-148, Apr. 17, 1996).

<sup>4</sup>Air Force Depot Maintenance: Privatization-in-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

two centers' depot maintenance workloads at other DOD depots, including savings that can be achieved for existing workloads by reducing overhead rates through more efficient capacity utilization of fixed overhead at underused military depots that could receive this workload.

- Use competitive procedures, where applicable, for determining the most cost-effective source of repair for workloads at the closing Air Force depots.

In August 1996, the Air Force announced a revised strategy for allocating the depot workloads at the Sacramento and San Antonio centers. The strategy involved several large consolidated work packages, essentially one at Sacramento and two at San Antonio (one for the C-5 aircraft and one for engines). In December 1996, the Air Force issued procedures to conduct public-private competitions for the workloads and to allow one of the remaining public depots to compete with the private sector for each of the three workload packages. The Air Force's procedures allowed evaluation credit for public and private sector proposals that offered overhead savings to other government workloads.

In February 1997, the Air Force issued a request for proposals (RFP) for the C-5 aircraft depot maintenance workload. In September 1997, the Air Force awarded the C-5 workload to the Warner Robins Air Logistics Center based on the Air Force's conclusion that it had the lowest total evaluated cost. As required by the 1998 Defense Authorization Act, we reviewed the C-5 award, issuing our report on January 20, 1998. We concluded that (1) the C-5 competition procedures provided an equal opportunity for public and private offerors to compete without regard to where the work could be performed; (2) the procedures did not appear to deviate in any material respect from the applicable laws or the FAR; and (3) based on Air Force assumptions and conditions at the time of award, the award resulted in the lowest total cost to the government.<sup>5</sup>

On December 19, 1997, DOD submitted to Congress a determination and report to support bundling the engine workloads at the San Antonio depot and a determination and report to support bundling the commodity and aircraft workloads at the Sacramento depot. DOD was required to submit these documents before issuing single solicitations at each location for the

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<sup>5</sup>Public-Private Competitions: Processes Used for C-5 Aircraft Award Appear Reasonable (GAO/NSIAD-98-72, Jan. 20, 1998).

combined work. In response to 1998 Authorization Act requirements and subsequent requests from the Senate Committee on Armed Services and the House Committee on National Security, we issued two reports and two testimonies providing our assessment of DOD's determinations that it was more logical and economical to combine the workloads being competed at the closing depots.<sup>6</sup> We reported that

- the determinations and reports contained significant weaknesses in logic, assumptions, and data;
- DOD had not considered alternatives that appeared to be logical and potentially cost-effective;
- DOD's assumption that efficiencies from shared personnel and facilities would be best achieved with a single solicitation for combined workloads at each location was questionable; and
- the Air Force's conclusion from its cost analysis that the workload combination would save \$22 million to \$130 million at Sacramento and \$92 million to \$259 million at San Antonio was questionable because the Air Force did not consider all cost factors, such as the cost benefits of increased competition resulting from solicitations for individual workloads.

On March 20, 1998, the Air Force issued a solicitation for the combined aircraft and commodity workloads at the Sacramento depot and on March 30, 1998, issued a solicitation for the combined engine workloads at the San Antonio depot. We issued our required report on the Sacramento solicitation on May 4, 1998.<sup>7</sup> We concluded that the Air Force had not provided a sufficient basis to show that soliciting the workloads on a combined basis was necessary to satisfy its needs. Otherwise, we found that the solicitation complied with applicable laws, including 10 U.S.C. 2469a. On May 14, 1998, we issued our report on the San Antonio solicitation, similarly concluding that the Air Force had not provided a sufficient basis to show that soliciting the workloads on a combined

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<sup>6</sup>Public-Private Competitions: DOD's Determination to Combine Depot Workloads Is Not Adequately Supported (GAO/NSIAD-98-76, Jan. 20, 1998); Public-Private Competitions: Access to Records Is Inhibiting Work on Congressional Mandates (GAO/T-NSIAD-98-101, Feb. 24, 1998) and (GAO/T-NSIAD-98-111, Mar. 4, 1998); and Public-Private Competitions: DOD's Additional Support for Combining Depot Workloads Contains Weaknesses (GAO/NSIAD-98-143, Apr. 17, 1998).

<sup>7</sup>Public-Private Competitions: Review of Sacramento Air Force Depot Solicitation (GAO/OGC-98-48, May 4, 1998).

basis (was necessary to satisfy its needs but that otherwise the solicitation complied with applicable laws, including 10 U.S.C. 2469a.<sup>8</sup>

In October 1998, the Air Force awarded the Sacramento workload to the Ogden Air Logistics Center. As required by the 1998 Defense Authorization Act, we reviewed the Sacramento award, issuing our report on November 23, 1998.<sup>9</sup> We concluded that (1) the Air Force met the requirements of applicable laws and regulations in awarding the Sacramento workload to the Ogden Air Logistics Center; (2) the process used for estimating overhead, commodity rate risk, warehousing, base operating support, and material surcharge costs provided issues for the Air Force to consider in its future competitions; and (3) the evaluation team could have better documented support for certain key cost estimates, followed more appropriate or consistent approaches for estimating costs, and used more accurate or appropriate data.

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<sup>8</sup>Public-Private Competitions: Review of San Antonio Depot Solicitation (GAO/OGC-98-49, May 14, 1998).

<sup>9</sup>Public-Private Competitions: Processes Used for Sacramento Depot Maintenance Award Appear Reasonable (GAO/NSIAD-99-42, Nov. 23, 1998).

# Legal Review of Competition for San Antonio Air Logistics Center Workloads

On March 30, 1998, the Department of the Air Force, San Antonio Air Logistics Center (ALC) at Kelly Air Force Base, Texas, issued request for proposals (RFP) No. F41608-98-R-0084 for the purpose of conducting a public-private competition for the propulsion business area depot-level workloads being performed at the closing San Antonio ALC. The Air Force received proposals from one private sector offeror—Pratt & Whitney San Antonio Engine Services, Inc. (Pratt & Whitney) and from one public offeror—the Air Force's Oklahoma City ALC. Following technical and cost evaluations, the Air Force selected Oklahoma City ALC to perform the San Antonio workloads on the basis that its proposal represented the best value to the government. The Oklahoma City ALC proposal represented the lowest "most probable total evaluated" cost at \$10,516,225,557 over the 15-year performance period.<sup>1</sup>

Section 359 of the National Defense Authorization Act for Fiscal Year 1998, Public Law 105-85 (1998 Authorization Act) added section 2469a to title 10 of the United States Code, which provided for special procedures for public-private competitions for the workloads at the closing San Antonio and Sacramento ALCs. Section 2469a also requires us to review the selection process for the awards made for the workloads at the two closing ALCs and report to Congress within 45 days of each award on whether (1) the procedures used to conduct the competition provided a substantially equal opportunity for offerors to compete without regard to performance location and complied with 10 U.S.C. 2469a and all applicable laws and regulations, (2) appropriate consideration was given to factors other than cost in the selection, and (3) the award resulted in the lowest total cost to the Department of Defense (DOD) for the performance of the workloads.<sup>2</sup>

Our review was based on the record of the proposal evaluation and the selection. In addition, we spoke to Air Force officials and considered concerns raised informally by one of the competitors. We recognize that an offeror can file a protest with our Office pursuant to 31 U.S.C. 3551-3556, or file an action with the courts, or an objection to the award with DOD under 10 U.S.C. 2469a(h). If a protest is filed with our Office or an action is filed in court, factual information, issues, and arguments raised by the interested parties would be reviewed in the context of an adversarial process.

<sup>1</sup>The "most probable total evaluated cost" represents the offeror's costs as adjusted by cost comparability factors as well as a range of "dollarized" discriminators and projected overhead savings.

<sup>2</sup>Our analysis of the cost of the award is contained in the body of the report.



Thus, the result of a protest or court action may differ from that of our current review. Similarly, the result of an objection filed with DOD may differ from our review.

Our review of the procedures the Air Force used to conduct the San Antonio competition in the context of the concerns that were raised by the competitor revealed no basis to conclude that (1) the procedures did not provide a substantially equal opportunity for the offerors to compete without regard to performance location, (2) appropriate consideration was not given to factors other than cost in the selection, and (3) the procedures used in selecting the successful offeror deviated in any material respect from the applicable laws and regulations. While not affecting the legal sufficiency of the selection, we nevertheless identified several issues related to the estimates used in the cost evaluation. These issues are discussed in the body of the report.

In our 1998 review of the San Antonio solicitation, we concluded that the Air Force had not provided a sufficient basis to show that soliciting the workloads on a combined basis was necessary to satisfy its needs. We also concluded that the solicitation was otherwise in compliance with applicable laws, including the provisions of 10 U.S.C. 2469a, and that it provided a substantially equal opportunity for offerors to compete without regard to performance location.<sup>3</sup>

On May 29, 1998, the National Airmotive Corporation (National Airmotive) filed a protest of the solicitation's provisions with our Office pursuant to 31 U.S.C. 3551-3556. National Airmotive objected to the solicitation of the workloads on a combined basis. In a decision dated September 4, our Office denied the protest, concluding that the Air Force was able to show, based, in part, on evidence concerning readiness risks not considered in our earlier report, that combining the workloads was reasonably required to satisfy its needs.<sup>4</sup> On November 12, National Airmotive filed an action in the United States District Court for the Northern District of California, Oakland Division, seeking a declaration that the solicitation was illegally

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<sup>3</sup>10 U.S.C. 2469a(g) provides that we review all solicitations issued for the workloads at the two closing ALCs and report to Congress within 45 days of the solicitations' issuance regarding whether the solicitations (1) are in compliance with the provisions of section 2469a "and all applicable provisions of law and regulations" and (2) provide a substantially equal opportunity for offerors to compete without regard to performance location. The review of the San Antonio solicitation was the subject of our report entitled Public-Private Competitions: Review of San Antonio Air Force Depot Solicitation (GAO/OGC-98-49, May 14, 1998).

<sup>4</sup>National Airmotive Corp., B-280194, Sept. 4, 1998.

issued and void and an injunction preventing the Air Force from going forward with the award or performance of a contract awarded pursuant to the solicitation. The action was dismissed by decision dated February 25, 1999.<sup>5</sup> The following describes the legal standards applicable to the San Antonio competition, relevant aspects of the solicitation and evaluation procedures the Air Force used, and our analysis of those procedures under the applicable legal standards.<sup>6</sup>

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## Applicable Legal Standards

The basic authority for the San Antonio workload competition is 10 U.S.C. 2469a, which provides procedures for public-private competitions for the workloads of the closing San Antonio and Sacramento ALCs that are proposed to be outsourced after the November 18, 1997, enactment of the 1998 Authorization Act. Section 2469a sets forth a number of requirements that the Air Force must satisfy in its solicitations and the source selection process it uses to make awards for the specified workloads. Particularly, the solicitations and the source selection process must (1) permit both public and private offerors to submit offers; (2) take into account the fair market value of any land, plant, or equipment at a closed or realigned military installation that a private offeror proposes to use in the performance of the workload; (3) take into account the total estimated direct and indirect costs that DOD will be incur and the total estimated direct and indirect savings (including overhead) that DOD will be derive; (4) use cost standards to determine the depreciation of facilities and equipment that provide, to the maximum extent practicable, identical treatment to public and private offerors; (5) permit any offeror, whether public or private, to team with any other public or private entity to perform the workload at any location or locations they choose; and (6) ensure that

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<sup>5</sup>National Airmotive v. Cohen, Civ. Action No. C 98-4381 SC., DC., ND., and Cal., Feb. 25, 1999. The court concluded that the combination of the workloads was required to satisfy the Air Force's needs.

<sup>6</sup>As stated earlier, in the prior review of the San Antonio solicitation in our report, Public-Private Competitions: Review of San Antonio Air Force Depot Solicitation, we found that the Air Force did not provide a sufficient basis to show that the combined workloads were necessary to meet its needs. We changed our view, based on new information, in our bid protest decision, National Airmotive Corp. We will not again address the issue of the bundled workloads in the solicitation, because the subject of our review is the selection, not the solicitation.

no offeror is given any preferential consideration for, or is in any way limited to, performing the workload in place or at any other single location.<sup>7</sup>

In addition to 10 U.S.C. 2469a, a number of other laws are generally applicable to the outsourcing of government-performed depot workloads. One of the principal laws is 10 U.S.C. 2469, which provides for the use of "competitive procedures for competitions among private and public sector entities" when DOD contemplates changing from in-house to contractor performance of a depot workload valued at \$3 million or more. In addition, section 8039 of the Department of Defense Appropriations Act for Fiscal Year 1998, Public Law 105-56, authorizes public-private competitions for depot workloads as long as the "successful bids" are certified to "include comparable estimates of all direct and indirect costs for both public and private bids." Both provisions state that Office of Management and Budget Circular A-76 is not to apply to the competitions. Other than the reference in section 8039 to the use of comparable estimates of all costs, neither provision prescribes the elements that constitute a competition. Further, 10 U.S.C. 2470 provides that depot-level activities are eligible to compete for depot workloads.<sup>8</sup>

Other provisions apply, generally, to converting DOD functions to private-sector performance. Section 8014 of the 1998 DOD Appropriations Act requires that DOD certify its in-house estimate to congressional committees before converting any activity performed by more than

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<sup>7</sup>In addition, 10 U.S.C. 2469a(e) provides that DOD may issue a solicitation for multiple workloads under 10 U.S.C. 2469a only if DOD first determines that individual workloads cannot as logically and economically be performed without combination by potentially qualified sources and submits a report to Congress setting forth the reasons for the determination. The provision also requires us to review and provide our views on the DOD report. DOD decided to issue RFPs, including the one here, containing combined workloads and submitted the required determinations and reports on December 19, 1997. We reported on January 20, 1998, that the DOD reports did not support the determination. Public-Private Competitions: DOD's Determination to Combine Depot Workloads Is Not Adequately Supported (GAO/NSIAD-98-76, Jan. 20, 1998). Under 10 U.S.C. 2469a(e) DOD must wait 60 days from the submission of its report to issue an RFP containing combined workloads. There is no other restriction in subsection (e). The Air Force issued the San Antonio solicitation containing multiple workloads on March 30, 1998. After our January report, the Air Force provided additional supporting rationale for the combined workloads. We reported that the additional rationale was not well supported. Public-Private Competitions: DOD's Additional Support for Combining Workloads Contains Weaknesses (GAO/NSIAD-98-143, Apr. 17, 1998).

<sup>8</sup>We see nothing in the other applicable provisions governing the outsourcing of depot workloads that is inconsistent with 10 U.S.C. 2469a. In fact, the use of comparable cost estimates and the participation of DOD depot-level activities are provided for in 10 U.S.C. 2469a. Consequently, consistent with the rule of statutory construction that statutes be construed harmoniously to give effect to all provisions whenever possible, all of the above-cited provisions are effective and applicable to the San Antonio competition. See Posadas v. National City Bank, 296 U.S. 503-504 (1936); 53 Comp. Gen. 853 (1974).

10 civilian employees to contractor performance. The provisions of 10 U.S.C. 2461 require that when a DOD-performed function, such as the workloads involved in this competition, is changed to performance by a contractor, DOD must report to Congress and perform an analysis that shows that a savings will result. Under 10 U.S.C. 2462, DOD is generally required to contract with the private sector if a source can provide the supply or service at a lower cost than DOD can and to ensure that all costs considered are realistic and fair.<sup>9</sup>

The Air Force implements these outsourcing authorities through the Air Force Materiel Command's Procedures for Depot Level Public-Private Competition, December 20, 1996 (Depot Competition Procedures). The Depot Competition Procedures are supplemented by the Defense Depot Maintenance Council Cost Comparability Handbook (CCH), including the January 28, 1998, revision; the Air Force Materiel Command Guide to the Cost Comparability Handbook; and the SAF/AQ Public-Private Competition Cost Procedures of February 21, 1998. The Depot Competition Procedures provide for issuing a solicitation calling for offers from public and private sector sources and establish the criteria, including those listed in 10 U.S.C. 2469a, for deciding how the Air Force will select a source from either sector to perform depot workloads. According to these procedures, a competitive solicitation is to be issued under the applicable provisions of the Federal Acquisition Regulation (FAR). This regulation sets forth uniform policies and procedures for the competitive acquisition system that all executive agencies use and implements the provisions of chapter 137 of title 10 of the United States Code, which govern DOD acquisitions.

This use of the competitive acquisition system subjects a depot workload competition to the applicable provisions of chapter 137 and the FAR to the extent that they do not conflict with the public-private competition statutes cited previously. Newport News Shipbuilding and Dry Dock Company, B-221888, July 2, 1986, 86-2 CPD 23. Further, aspects of a competition that fall outside the competitive acquisition system's parameters as defined by chapter 137 and the FAR, such as the comparison of public and private offers for the workloads from the two closing ALCs, are governed by 10 U.S.C. 2469a and the other statutes applicable to public-private depot competitions as implemented by the Air Force.

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<sup>9</sup>Again, these provisions do not conflict with the six 10 U.S.C. 2469a competition requirements listed previously and may also apply to the San Antonio competition. See Posadas v. City Bank cited above.

In general, the standards in chapter 137 and the FAR (1) require that a solicitation clearly and unambiguously state what is required so that all offerors can compete on an equal basis and (2) allow restrictive provisions to be included only to the extent necessary to satisfy an agency's needs. Under these standards, an agency must follow the criteria announced in the solicitation, which in this case include those required by 10 U.S.C. 2469a, and exercise its judgment in a reasonable manner in determining which competing offer is to be selected. Dimensions International/QSOFT, Inc., B-270966.2, May 28, 1996, 96-1 CPD 257.

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## Solicitation

The RFP for the San Antonio workloads contains several line items representing the transition and performance of various combinations of the propulsion workload. For example, (1) line item no. 0001 calls for offers for transition, completion of work in process (WIP), and repair of the T56, TF39, and F100 engines; (2) line item no. 0002, for transition, WIP, and repair of the same three engines, and fuel accessories; (3) line item no. 0003, for transition, WIP, and repair of the same three engines, the fuel accessories and for two-level maintenance on the T56 engine; (4) line item 0004, for transition, WIP, and repair of the three engines and the fuel accessories and for two-level maintenance for the T56 and TF39 engines; and (5) for "over and above" work related to each of the four line items.<sup>10</sup>

The RFP provides for a transition period, which is to begin at the award and to end by July 13, 2001, and a 7-year basic performance period, which may be extended up to 15 years based upon the performance of the awardee. The fixed-price requirements-type award is to be based on the work as represented by line item nos. 0001, 0002, 0003, or 0004.<sup>11</sup> The size of the workload to be awarded to a private sector source is, according to the solicitation, to be determined based on the constraints of 10 U.S.C. 2466(a). That provision restricts the funds, which can be expended for private sector performance of depot-level workloads, to no more than 50 percent of the funds made available to the Air Force for such work in a particular fiscal year.

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<sup>10</sup>"Over and above" work is not included in the basic work requirements but is within the scope of the award and may be ordered on the basis of a fixed hourly rate.

<sup>11</sup>According to the solicitation, the prices would be subject to economic adjustment based on various measurement standards and to prospective redetermination based on revisions in the estimated quantities of the work and process improvements.

According to the solicitation, the competition is to be conducted under FAR part 12, which prescribes the policies and procedures for the acquisition of commercial items; FAR 15.101, which sets forth the source selection processes and techniques to be used in competitive negotiated acquisitions; and the applicable Air Force and Air Force Materiel Command supplements. Further, the solicitation provides that the Depot Competition Procedures, the CCH and their updates are to govern the selection.

The solicitation states that the award will be made to the offeror—either public or private—that is deemed responsible under the FAR,<sup>12</sup> whose proposal conforms with the solicitation, and that is judged to represent the best value to the government. According to the RFP, the source selection authority (SSA) will integrate the source selection team's assessments of the proposals under the evaluation criteria listed in the solicitation to arrive at a best value selection.<sup>13</sup>

The evaluation criteria cover transition, repair operations, cost, and assessment. Transition covers capability and resources, equipment, responsibility transfer milestones, and risk management. The repair operations criteria consist of five factors: (1) continuing operations plan, (2) risk management, (3) process improvements, (4) additional workloads, and (5) small business. The assessment criteria, which will be used to measure the extent to which a proposal meets the transition, repair operations, and cost criteria, are: (1) understanding of/compliance with the solicitation requirements and (2) soundness of approach.

Under the cost criteria, proposals will first be assessed for completeness, realism, and reasonableness.<sup>14</sup> Then each offeror's total proposed cost is to be determined by calculating the various cost estimates, unit prices, and hourly rates proposed for the different line items. Next, each offeror's total

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<sup>12</sup>According to FAR subpart 9.1, a responsible prospective contractor is one that meets the FAR 9-104 standards, which include having adequate financial resources, or the ability to obtain them; the ability to comply with the performance schedule; a satisfactory performance record; and the necessary facilities and equipment or the ability to obtain them.

<sup>13</sup>The solicitation provides that if the award is limited by the constraints of 10 U.S.C. 2466(a), the award may consist of the work in line items nos. 0001, 0002, 0003, or 0004. According to the RFP, the award of any line item may be made to the offeror whose proposal represents the best value for line item nos. 0004 and 0006 (over and above work), considering the risks associated with the awarded line item.

<sup>14</sup>Under FAR 15.404-1(d) a cost realism analysis is the process of reviewing and evaluating specific elements of an offeror's cost estimate to determine whether the proposed elements are realistic for the work to be performed. According to FAR 15.404-1, reasonableness is to be assessed through an analysis of either cost elements or overall price.

alternative cost is to be developed by factoring in the numerous adjustments to public and private offerors' total proposed cost under the CCH and the RFP. Finally, each offeror's total evaluated cost is to be determined by adjusting the total alternative cost to reflect the "dollarized impact of significant discriminators, to the extent that a dollar value can be assigned to such discriminators, based on identified proposal strengths, weaknesses and risks."<sup>15</sup>

Further, the RFP provides for the evaluation of general considerations such as the results of pre-award surveys, site visits, and fair market value. In addition, two risk assessments are done: one on the proposal and one on performance. A proposal risk assessment measures the risk that is associated with an offeror's proposed approach to accomplishing the solicitation requirements relating to each of the four transition area factors and each of the five repair operations area factors. A performance risk assessment determines, based on an offeror's present and past performance, the probability of the offeror's successfully accomplishing the proposed effort.

Finally, the solicitation provides that in the SSA's best value assessment, the criteria for transition and repair operations areas and cost criteria are to be equally important, while the general considerations are to be "considered substantially less important than transition, repair operations, or cost." According to the RFP, this assessment is also to include "as appropriate" items listed in the solicitation as "Other Considerations." This category essentially reiterates five of the six requirements for the competition listed in the 1998 Authorization Act.<sup>16</sup>

The proposals were first evaluated by specialized teams, which reported to a source selection evaluation board (SSEB), which in turn, reported its conclusions to a source selection advisory council (SSAC). The council then advised the SSA, who made the final selection.

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<sup>15</sup>"Dollarized impact," as we understand it, is the assignment of an estimated dollar value to the assessment of the benefit or detriment to the Air Force that would result from aspects of an offeror's proposal in calculating the offeror's total evaluated cost.

<sup>16</sup>The one requirement not listed in section M-902 of the RFP is the requirement that the cost standards used to determine the depreciation of facilities and equipment provide, to the maximum extent practicable, identical treatment to public and private offerors. This requirement is addressed in the RFP at paragraph 5.f.6 of section L and paragraphs 2.6.b. (7) and (8) of section M-901.

## Evaluation of Proposals

Two offerors submitted proposals in response to the solicitation. Oklahoma City ALC, the public depot chosen by the Air Force to submit the public sector offer, proposed to perform the F100 engine work at its facilities in Oklahoma City. The public offeror chose Lockheed Martin Kelly Aircraft Company (Lockheed) as its principal partner. Lockheed's major subcontractors are Standard Aero Limited, Chromalloy Gas Turbine, and Woodward Governor. Lockheed proposed using the San Antonio facilities transferred by the Air Force to the Greater Kelly Development Corp. (GKDC) and leased by GKDC to Lockheed. Lockheed, along with Standard Aero, would perform most of the T56 work at San Antonio. Lockheed would also head the TF39 effort, much of which is to be performed at San Antonio along with Woodward Governor and Chromalloy. The private sector offeror, Pratt & Whitney, proposed to perform most of the work on all three engines and accessories at the San Antonio facilities to be leased from GKDC.<sup>17</sup> Pratt & Whitney proposed performing most of the F100 work itself. The major subcontractors are General Electric Co. for the TF39 engine work, Allison/Rolls Royce/Standard Aero for the T56 work, and a joint venture of Caterpillar Logistics and Allied Signal for supply management and logistics support.

The proposals were initially evaluated to determine whether they were to be included in the competitive range in accordance with FAR 15.306(c) and considered for award.<sup>18</sup> On July 10, 1998, the Air Force determined that both proposals were within the competitive range.

Accordingly, the Air Force held discussions with the offerors consisting of written evaluation notices raising concerns about each of the proposals and face-to-face exchanges about the concerns. As a result, each offeror revised its proposal. The Air Force requested final proposal revisions on August 31, 1999. Both offerors submitted final revisions by September 14. The evaluators found pricing problems in both proposals that caused them to question the cost realism of each. According to the evaluators, the Oklahoma City ALC proposal contained a significant unsupported drop in material prices and instances of unbalanced pricing. The Pratt & Whitney proposal contained unexplained variances from the Air Force estimates; some prices were significantly higher and some unrealistically low. The Air

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<sup>17</sup>A significant part of the TF39 engine work will be performed at locations other than San Antonio.

<sup>18</sup>FAR 15.306(c) provides that the contracting officer shall determine which proposals are in the competitive range for the purpose of conducting discussions.



Force therefore decided to amend the RFP to provide for the submission of detailed pricing information from both offerors on a sample of 50 from the 694 exhibit line items (ELINS) that represented all of the required work.<sup>19</sup> Both offerors submitted the information requested, which the Air Force evaluated and discussed with the offerors. The evaluators were later satisfied that the offerors' amended prices were realistic, and a second round of final proposal revisions was submitted by January 16, 1999.

The Air Force made final cost adjustments and evaluated the January 16 proposal revisions. Based on the results of the evaluations and cost adjustments, the advice of the SSAC, and the SSA's analysis in the context of the RFP evaluation criteria, the SSA decided that the Oklahoma City ALC proposal met all of the RFP requirements and represented the best value to the Air Force over the life of the requirement. While the SSA recognized that Pratt & Whitney submitted a "slightly better technical proposal," the SSA found that the differences between the two proposals had been normalized by the "dollarization" adjustments and concluded that the Oklahoma City ALC proposal would meet the needs of the Air Force at less cost.

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## Technical Evaluation

As noted previously, the solicitation evaluation criteria provided that the offerors' management approaches were to be evaluated in the transition and repair operations areas. Under transition, four factors were to be evaluated: (1) capability and resources, (2) equipment, (3) responsibility transfer milestones, and (4) risk management. Repair operations included five factors: (1) continuing operations plan, (2) risk management, (3) process improvements, (4) additional workloads, and (5) small business. Under each of the factors the proposal risk was to be assessed.

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### Transition

Capability and resources, the first factor under transition, were assessed by examining the offerors' proposed processes to improve the availability of engines and its capability to achieve the flow days proposed for the estimated quantities. The SSA noted that the SSAC had assigned Oklahoma City ALC a green, or acceptable, rating with moderate risk. Pratt & Whitney had been given a blue, or exceptional, rating with low risk. The SSA stated that Oklahoma City ALC had experience in military engine

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<sup>19</sup>According to the Air Force the 50 ELINS selected for detailed review represented 85 percent of the baseline value of the total requirement.

repair and provided a low risk approach to transition of the TF39 and T56 work, which was to be done in place at the San Antonio facility. The SSA recognized that Oklahoma City ALC's proposal to transition the F100 work to its Oklahoma City ALC facility met the RFP requirements. Nevertheless, the SSA was concerned with the plan to hire 1,251 workers, 81 percent of whom would need some training before the public offeror's assumption of full responsibility for the work in January 2000. According to the SSA, only 60 percent of the workers would be fully trained by that date. While the SSA was concerned that this lack of training could cause problems in meeting production requirements, she believed that through the implementation of the Oklahoma City ALC's contingency plans, production impacts and schedule concerns could be mitigated. The SSA concluded that training was a weakness in the ALC's transition plan for the F100 work that justified the moderate risk rating. The SSA further concluded, however, that the risk could be offset by an upward "dollarization" cost adjustment to cover the cost risks of implementing any needed contingency actions.<sup>20</sup> The SSA found several strengths in the Pratt & Whitney approach, including (1) its plan to conduct a 9-day "stand-down" for employee orientation and training and to inventory equipment, material, and WIP; (2) its plan for multi-skill training; and (3) its direct access to parts purchasing and manufacturing. While recognizing the advantages of these and other strengths, the SSA concluded that they were reflected in Pratt & Whitney's prices and plans to reduce flow days and were therefore not susceptible to separate "dollarization" credit.

For the equipment factor, an offeror was to set forth its plans for acquiring equipment from the Air Force and other sources to support the work. The SSA concurred with the SSAC's green rating with low risk for both proposals. The SSA concluded that both proposals were essentially equal and proposed no "dollarization" adjustment.

For the responsibility transfer milestones factor, the Air Force evaluators measured the offerors' ability to pass from transition to full performance. The SSAC gave both offerors green, or acceptable, ratings and assigned Oklahoma City ALC's proposal a moderate risk rating and Pratt & Whitney's proposal a low risk rating. According to the SSA, both proposals met the RFP requirements, but the SSA was concerned about Oklahoma City ALC's plan to qualify itself to perform an additional 61 critical F100 repair

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<sup>20</sup>As discussed later, the SSEB cost evaluators developed proposed "dollarization" cost adjustment figures under appropriate factors, which were provided to the SSAC and the SSA.

processes that are currently contracted out. An independent technical team reviewed Oklahoma City ALC's plan to become qualified in all of the repair processes within a 17.5-month schedule. According to the team, Oklahoma City ALC could be qualified to perform 43 percent of the repairs within the planned 17.5 months, 78 percent of the repairs within 36 months, and 98 percent (all but two of the repairs) within 60 months. On the basis of this assessment, the SSA concluded that Oklahoma City ALC could meet all of the RFP requirements, but to do so on schedule, it might have to use outside sources. Therefore, the SSA proposed to offset the risk of having to use more costly outside sources by an upward "dollarization" cost adjustment. After making the cost adjustment, the SSA concluded that both proposals demonstrated the technical capability and resources to meet the requirements and were essentially equal under this factor.

For the risk management factor, the Air Force measured the offeror's ability to identify areas of transition risk and to provide a credible approach to manage it. The SSA concurred with the SSAC's rating of each proposal as green with low risk. The SSA concluded that both proposals were essentially equal and proposed no "dollarization" adjustment.

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## Repair Operations

Under the continuing operations plan factor, an offeror was to provide a realistic time-phased production operations plan for achieving its proposed flow days, providing the required quantities, and improving the availability of all three engines. The SSA concurred with the SSAC's rating of each proposal as blue with low risk. The SSA noted that Oklahoma City ALC offered extended warranties on the T56 and TF39 engines that exceeded the RFP requirements by a minimum of 500 percent in operational time and should result in savings to the Air Force. In addition, the SSA stated that the public offeror committed to a significant flow day reduction of 11 percent from the current baseline across the entire requirement and planned to support early induction of T56 and TF39 reparable components prior to orders creating a pool of serviceable items. The SSA proposed to capture these benefits by a downward "dollarization" evaluation credit. Pratt & Whitney proposed to use a single logistics company (formed by Allied Signal and Caterpillar Logistics) to provide logistics support, which according to the SSA had the potential to expedite material movement, centralize material tracking and control, and provide for other efficiencies. Further, the SSA noted that the private offeror proposed extended warranties for the T56 and TF39 engines and reliability guarantees for the F100. Pratt & Whitney exceeded the RFP warranty requirements by 400 to 500 percent for the T56 and TF39 engines and committed to what the SSA

termed as a "significant flowday reduction" of 32.1 percent for the total requirement. The private offeror also proposed to support early induction of T56 and TF39 reparable components. The SSA proposed to make a downward "dollarization" adjustment in her evaluation of the Pratt & Whitney proposal for these benefits.

For the risk management factor, which was used to assess an offeror's ability to identify repair operation risk areas and manage them, the SSA agreed with the SSAC's rating of both proposals as green with low risk. The SSA stated that both proposals were essentially equal and proposed no "dollarization" adjustments.

For the process improvement factor, the Air Force measured the offerors' approach to systematic improvements of processes and related resources. The SSA agreed with the SSAC rating of Pratt & Whitney's proposal as blue with low risk and the public sector proposal as green with low risk. While recognizing that Oklahoma City ALC proposed an acceptable approach, the SSA noted several strengths in the Pratt & Whitney proposal. The SSA was particularly impressed with the private offeror's approach to "reliability centered maintenance" that included depot visit guarantees if reliability performance objectives were not met. The SSA found that these benefits, though significant, had already resulted in "dollarization" credits for Pratt & Whitney under other factors, so no additional adjustments were proposed.

Neither offeror proposed any additional work, and neither was given a rating under the additional work factor.

For the small business factor, the SSA adopted the SSAC ratings of green with low risk for Oklahoma City ALC and blue with low risk for Pratt & Whitney. The SSA considered the private offeror's approach as a strength but did not consider the ratings under this factor "to be a discriminator."

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## Performance Risk Assessment

For the performance risk analysis of the transition, repair operations, and cost areas, the SSA determined that the Oklahoma City ALC transition area represented a low risk, but represented a moderate risk in the repair operations and cost areas. Likewise, Pratt & Whitney's repair operations area represented a moderate risk, but the cost and transition areas were considered a low risk. The SSA stated that Oklahoma City ALC's cost could be volatile due to factors beyond the public offeror's control. However, the SSA noted that Oklahoma City ALC had been a good cost manager in areas

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under its control. The SSA concluded that the difference in cost risk represented by the two offerors could be accommodated by making upward adjustments for cost realism to the Oklahoma City ALC proposal.

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## General Considerations

Under the general consideration category, the SSA concluded that both offerors met the solicitation and responsibility requirements. The SSA noted that both offerors proposed to lease facilities from GKDC.<sup>21</sup> The SSA stated that the Air Force's sale of the closing San Antonio facilities to GKDC for \$108 million appeared to be reasonable and represented the fair market value of the property. Further, the SSA noted that while she did not have insight into the lease arrangements between GKDC and the two offerors or their partners, she assumed that neither offeror had received preferential treatment, since the leases were competitive agreements.

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## Cost Evaluation

As noted previously, the cost evaluation consisted of (1) an assessment of the realism and reasonableness of the cost proposals; (2) a determination of the "total alternative cost" of each proposal, calculated through adjustments required by the CCH and RFP; and (3) a determination of the total evaluated cost of each proposal, calculated by adjusting the total alternative cost to reflect the "dollarization" of significant discriminators among the proposals. In determining the total evaluated cost, the SSA used ranges based on different estimates for overhead savings and risk "dollarization." The results of these analyses are summarized below.<sup>22</sup>

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## Realism and Reasonableness Evaluation

The cost team evaluators initially reviewed each offeror's cost proposal to determine its completeness, realism, and reasonableness. The evaluators were ultimately satisfied that each cost proposal met these standards. Under the Depot Competition Procedures, the Defense Contract Audit Agency (DCAA) audited the Oklahoma City ALC cost proposal and reviewed the public offeror's disclosure statement<sup>23</sup> and accounting and

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<sup>21</sup>The public offeror's private partners proposed to perform much of their work at the closing San Antonio facilities. The lease was to be between the private firms and GKDC.

<sup>22</sup>SSEB cost team evaluators calculated the various cost adjustments and ranges for overhead savings and "dollarization," which were approved by the SSAC. As discussed later, the SSA adopted the adjustments and considered the proposed ranges for overhead savings and "dollarization" in the selection.

<sup>23</sup>The Depot Competition Procedures require that a public offeror provide a disclosure statement of its cost accounting practices under the requirements of the Cost Accounting Standards Board.

estimating systems. DCAA found that the disclosure statement was adequate and the cost proposal was realistic.<sup>24</sup> DCAA found the Oklahoma City ALC accounting system to be adequate.<sup>25</sup>

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## Determination of Total Alternative Cost

The cost evaluators determined each offeror's total alternative cost by calculating the offeror's "customer cost"—in essence, its proposed price for performing the requirement represented by line items 0004 and 0006, and making upward and downward adjustments to the cost in accordance with the RFP and the CCH. Oklahoma City ALC's customer cost was calculated to be \$10,164,013,176. Pratt & Whitney's customer cost was \$11,559,347,993. At this point, the Oklahoma City ALC proposal was about \$1.395 billion lower.

Using the customer cost for each offeror as a base, the evaluators made the comparability adjustments called for in the CCH and the RFP. The evaluators made two sets of adjustments. The first set, required by form number 1 of the CCH,<sup>26</sup> encompassed adjustments to the public sector offer to reflect its full performance cost. The second set, required by form number 2 of the CCH, to reflect other cost differences between public and private entities, were applicable to the public and private sector proposals.

The CCH form number 1 adjustments made to the Oklahoma City ALC proposal included upward and downward changes in a number of

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<sup>24</sup>As stated in the Air Force's February 1998 Competition Cost Procedures, a public offeror is considered to have a funding advantage over a private-sector offeror under the fixed-price portions of the requirement in that cost overruns may be paid for by the government through the working capital fund. Thus, in "dollarizing" the risks inherent in the Oklahoma City ALC proposal, the SSAC proposed upward adjustments from \$110,193,523 to \$175,752,377 to represent material cost risk and \$30,572,635 to represent labor cost risk. These adjustments seem to have been in lieu of adjustments to the Oklahoma City ALC cost proposal during the initial cost realism evaluation. They are different from most of the other "dollarization" adjustments as they primarily relate to the method of developing the cost estimates rather than a quantification of a technical performance risk.

<sup>25</sup>DCAA did not review Oklahoma City ALC's estimating system because, according to the Air Force, such a review is "normally done only when the anticipated number of future cost proposals warrants such a review."

<sup>26</sup>Since Oklahoma City ALC proposed that a private firm, Lockheed, be responsible for the T56 and TF39 work, the portion of the Oklahoma City ALC cost proposal that represented the work to be performed by Lockheed or its subcontractors was not subject to the form number 1 adjustments. The Lockheed portion was, however, subject to the form number 2 adjustments applicable to private offerors.

categories.<sup>27</sup> The most significant were upward adjustments of \$97,919,767 for base operating support, \$27,100,211 for unfunded civilian retirement, and \$36,334,858 for retiree health benefits. The net result of all of the adjustments was an upward adjustment to the public offeror's proposal of \$135,038,131 that resulted in a form number 1 adjusted cost of \$10,299,051,307. The adjusted cost was still lower than Pratt & Whitney's customer cost of \$11,559,347,993.

CCH form number 2 adjustments were made to both proposals. Upward adjustments were made to both proposals for contract administration costs, reduction-in-force (RIF) costs, personnel carrying costs (that is, costs of retaining the current workforce at San Antonio that will be subject to a RIF and not be rehired by the new source after the workload is transitioned), a transition adjustment for costs of performing the WIP during the transition that each offeror elected not to perform, and the depreciation of government furnished equipment provided to a private source.<sup>28</sup>

Some downward adjustments were made to the public offeror. For example, an adjustment of \$28,731,413 was made for warehousing services provided by the Defense Logistics Agency.<sup>29</sup> Other downward adjustments were \$56,793,362 to the Oklahoma City ALC proposal to account for the cost in the public offeror's rates for contract management and oversight that would not be needed for in-house performance of the F100 work, and \$346,780,440 to the Pratt & Whitney proposal for the payment of federal income tax on profits and \$78,424,733 to the Oklahoma City ALC proposal for the payment of tax on profits.<sup>30</sup>

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<sup>27</sup>Upward adjustments were made for state unemployment payments, unfunded civilian retirement, depreciation for military construction program facilities, casualty insurance, F-100 packaging costs, and other recurring costs consisting of impact aid, retiree health benefits, and base operating support. Downward adjustments were made for mobilization support (cost of mobilization support plans and of underused capacity for mobilization requirements), for the Oklahoma Quality Jobs Credit (a special state incentive for the creation of local jobs), and for the use of specified sources (surcharges and other costs added to the cost of materials by the government supply system). For each form number 1 category, the public offeror submitted a proposed adjustment in its offer, which was subject to evaluation and adjustment by the SSEB, the SSAC, and the SSA.

<sup>28</sup>The SSAC also included an upward adjustment of \$12,755,639 to the Oklahoma City ALC proposal because of underpricing on T56 material found after the evaluation of the final proposal revision. This was to correct an error and was not actually a form 2 adjustment.

<sup>29</sup>The body of the report contains a detailed discussion of the calculation of the adjustment.

<sup>30</sup>Since this adjustment was for private offerors, it applied to the Lockheed portion of the Oklahoma City ALC proposal.

Form number 2 also provided for a downward adjustment for either a public or private offeror that proposed and supported overhead savings resulting from the addition of work from the competition.<sup>31</sup> Pratt & Whitney proposed no overhead savings. The evaluators initially determined that a downward adjustment of \$210,617,658 to \$160,119,093 should be applied to the Oklahoma City ALC proposal to represent the savings applicable to other workloads at the Oklahoma City ALC facility during the 15-year performance period. Later, the SSAC decided that the savings should be applied to only the first 3 years of performance because of the RFP provision governing the evaluation of such savings. Accordingly, the SSAC recommended that the overhead savings range be adjusted to \$41,804,513 through \$45,440,612.

The net result of the form number 2 comparability analysis for the Pratt & Whitney proposal was a downward adjustment of \$233,923,488. The form number 2 downward adjustments to the Oklahoma City ALC proposal, including the high and low ranges for overhead savings, were \$13,542,977 (high overhead savings) and \$9,906,878 (low overhead savings). The SSA agreed with the SSAC form number 1 and number 2 adjustment recommendations, including the recommendation relating to the use of the 3-year period for the calculation of the overhead savings proposed by Oklahoma City ALC. In this regard, the SSA chose the low range of \$41,804,513.<sup>32</sup>

The cost adjustments adopted by the SSA resulted in a total alternative cost for Pratt & Whitney of \$11,325,424,505 and \$10,289,144,429 for Oklahoma City ALC. No single adjustment accounts for the cost difference at this point, and Oklahoma City ALC's cost is more than \$1 billion less than Pratt & Whitney's.

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<sup>31</sup>The solicitation stated that an offeror's proposed overhead savings for its workloads performed outside of the competition would be allowed for the first year if determined to be reasonable, while second year savings, if supportable, would also be allowed, but discounted for risk. The solicitation explains that proposed savings for 3 years and beyond "may be allowed if clearly appropriate, but in any event will be considered under the best value analysis." The overhead savings evaluation provision was included in the solicitation under the February 21, 1998, SAF/AQ competition cost procedures.

<sup>32</sup>While the SSA's decision document states that the SSAC recommended that the overhead savings be considered for the full 15 years, the proposal analysis report approved by the SSAC states that it "adjusted the figures to consider only the first three years savings" and proposed a "revised" overhead savings of between \$41,804,513 and \$45,440,612. In any event, the SSA, in the first instance, chose an overhead savings figure of \$41,804,513 that was based upon the 3-year limit; no matter whose idea it was. As discussed later, this figure was increased in the SSA's best value analysis. A detailed discussion of the calculation of the projected overhead savings is contained in the body of the report.



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## Determination of Total Evaluated Cost

To arrive at the total evaluated cost of each proposal, the evaluators took the total alternative cost and applied "dollarization" adjustments. These adjustments were reviewed by the SSA and used in the final selection decision.

The initial aspect of the Oklahoma City ALC proposal that was considered to be suitable for quantification was the moderate risk under the transition capability and resources factor. The risk involved Oklahoma City ALC's proposal to hire 1,251 new workers to perform the F100 workload. The evaluators were concerned that only 60 percent of these workers would be fully trained by the time Oklahoma City ALC was to assume the workload at its facility. To compensate for the potential labor inefficiencies that could result from the need to provide training while meeting production requirements, the evaluators calculated an upward adjustment of the Oklahoma City ALC proposal between \$19,974,001 and \$126,816,454.<sup>33</sup>

The evaluators were also concerned, under the responsibility transfer milestones factor, about Oklahoma City ALC's plan to convert 61 outsourced repair operations to in-house performance within 17.5 months. The evaluators concluded, based upon the findings of an independent review team, that it would likely take the public offeror longer than planned to achieve successful implementation of the repairs. As a result, Oklahoma City ALC was assigned a moderate risk rating in the technical evaluation under the responsibility transfer milestones factor. Since Oklahoma City ALC based its prices on its performance of the repairs, the evaluators calculated an upward cost adjustment range (\$26,335,737 to \$71,850,386) to represent the risk of incurring the additional cost of contractor repairs during delays in implementing the in-house repair capability.

The evaluators proposed a downward "dollarization" credit under the continuing operations plan factor for flow day improvements and warranties and guarantees proposed by both the public and private

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<sup>33</sup>As we understand it, the SSEB and the SSAC calculated this range as a composite representing the labor efficiency risks in the Oklahoma City ALC proposal because of its training weakness under the capabilities and resources factor and of concerns about the impact of the training plans on the ability of the public offeror to achieve full operations for the F100 work under the responsibility milestones factor. It appears that the range calculations also included factors representing the projected efficiency of the San Antonio workforce in performing new F100 work under the supervision of Oklahoma City ALC during transition and of the workforce at Oklahoma City ALC during startup. As discussed next, the SSAC proposed a separate upward "dollarization" adjustment under the responsibility milestones factor representing the cost risk of converting contracted repairs to in-house performance.

offerors. In the case of Oklahoma City ALC, the SSAC recommended a downward adjustment of \$10,067,417 based on the public offeror's proposal to reduce the flow days 11 percent from the current baseline for accomplishing the repairs. Further, the public offeror proposed warranties that exceeded the RFP requirements on the T56 and TF39 work that, according to the SSAC, were worth \$3,600,000. Thus, the SSAC proposed adjusting the public proposal downward by that amount.

Pratt & Whitney proposed larger flow day reductions totaling up to 32.1 percent. According to the SSAC, this merited a downward evaluation credit of \$37,665,886. Pratt & Whitney further proposed to implement its "reliability centered maintenance" approach to the work through an extensive variety of warranties and guarantees that exceeded the RFP requirements and impacted most of the repairs. The benefits of this approach were to be accrued through reduced engine removal rates, guaranteed engine availability, warranted or guaranteed reliability, and reduced intermediate maintenance costs. According to the evaluators, the benefits, though significant, were often "heavily" weighted towards the later portion of the performance period—10 years and later. This aspect of the proposal caused concern that changes over time could reduce the future value of the warranties and guarantees. Based upon an analysis of the benefits, the SSAC, however, concluded that they could extend over the entire 15-year potential performance period and proposed a large downward credit between \$605,500,000 and \$505,700,000<sup>34</sup> to represent the cumulative estimated value of the Pratt & Whitney approach.

In addition to the quantification of the technical aspects of the proposals, the evaluators proposed adjustments to the Oklahoma City ALC proposal to take into account the risk inherent in the nature of the public depot's funding under the working capital fund and the possibility that the government would have to shoulder additional costs if Oklahoma City ALC could not perform its portion of the work at its proposed rates. The evaluators were concerned that Oklahoma City ALC had underestimated the cost of the materials needed to perform the F100 work. After analyzing the materials proposed under the 50 ELINS (as discussed earlier, these items represent about 85 percent of the baseline value of the requirement)

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<sup>34</sup>While the table of proposed "dollarization" adjustments in the SSAC's report lists \$605,500,000 as the high end of the range. There is a summary graph in the report representing the evaluated warranty and guarantee savings using \$608.3 million as the high end. An appendix to the report containing a detailed analysis of the savings also used \$608.3 million. As discussed later, the SSA used \$608.3 million in the initial evaluation.

they found that the public offeror proposed fewer materials than had been used in the past and had included a 5-percent material price reduction without a detailed implementation plan.

Later, the SSAC considered the impact of past cost growth in materials due to factors beyond the control of the public offeror. Accordingly, the SSAC proposed an upward cost adjustment, based upon the 50 ELIN and past cost growth analyses, ranging from \$175,752,377 to \$110,193,523 to represent the risk that Oklahoma City ALC would not be able to perform within its material cost estimate.<sup>35</sup> Similarly, the evaluators were concerned that the public offeror had underestimated the labor costs of performing the F100 work. In this regard, the SSAC concluded, based on Oklahoma City ALC's past performance history and on historical cost growth beyond the ALC's control, that an upward adjustment of \$30,572,635 was justified to represent the risk of potential labor cost growth.

Finally, the SSAC proposed upward adjustments to both the public and private proposals to account for the potential decline in the workforce efficiency at the closing San Antonio ALC. The adjustments were to represent the declining efficiency at San Antonio between the award and the offeror's assumption of the work in process, or WIP.<sup>36</sup> The SSAC proposed upward adjustments between \$21,900,000 and \$32,600,000 for Oklahoma City ALC and between \$27,600,000 and \$41,900,000 for Pratt & Whitney.

As a result of these evaluations, the SSAC presented the SSA with a recommended total evaluated cost range for each offeror. The recommendation consisted of a high range, including the lowest overhead savings, if any, combined with the highest upward and lowest downward, "dollarization" adjustments; and a low range consisting of the highest overhead savings, if any, and the lowest upward and largest downward adjustments. The high range for Pratt & Whitney was \$10,823,958,619, while its low range was \$10,709,858,619. The high range for Oklahoma City ALC was \$10,713,068,863, and the low range was \$10,480,816,809. Thus, according to the SSAC recommendation, while the Oklahoma City ALC

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<sup>35</sup>See the body of the report for a further discussion of the adjustment.

<sup>36</sup>Under both proposals, after the award, the San Antonio workforce would perform the WIP for a period until assumed by the new source. The difference in the proposed adjustments is due to the different period proposed by each offeror between award and assumption of the work; the range in each proposed adjustment is due to varying efficiency assumptions.

high and low ranges were below the Pratt & Whitney high range, the private offeror's low range was slightly below the public offeror's high range.

The SSA took a two-step approach in the review of the SSAC cost and "dollarization" recommendations. The SSA first considered the SSAC recommendations directly and later gave further consideration to certain of them in the context of a "best value" analysis.

As mentioned before, the SSA initially adopted the SSAC form number 1 and number 2 cost adjustments and \$41,804,513 in overhead savings for other government work performed at the Oklahoma City ALC. The SSA chose \$37,400,000 (from a range of \$19,974,001 to \$126,816,454) to represent the cost risk to cover potential labor inefficiencies inherent in Oklahoma City ALC's transition plan and \$71,850,386 (from a range of \$26,335,737 to \$71,850,386) to represent the risk that the public offeror would not be able to perform all of the F100 repair processes on schedule. The SSA further agreed with the SSAC's assessment that Oklahoma City ALC offered \$10,067,417 worth of flow day improvements and \$3,600,000 in warranties and guaranties. The SSA agreed with the SSAC that the Oklahoma City ALC proposal represented a cost risk in both its material and labor cost estimates by making an upward cost adjustment of \$175,752,377 for material (from a range of \$110,193,523 to \$175,752,377) and \$30,572,635 for labor. The SSA also agreed with the low range of the upward adjustments (\$21,900,000 for the public offeror and \$27,600,000 for the private offeror) proposed by the SSAC to compensate for likely labor inefficiencies in connection with the WIP to be performed by the workforce at the closing San Antonio ALC. The SSA agreed with the SSAC that Pratt & Whitney offered flow day reductions that would benefit the Air Force and adopted a \$37,666,886 downward adjustment. Finally, the SSA agreed with the SSAC that Pratt & Whitney's "reliability centered maintenance" approach, as implemented by its series of guarantees and warranties, would be a significant benefit to the Air Force. The SSA accordingly adopted the SSAC's high range downward adjustment of \$608,300,000 to recognize the potential savings.

At this point in the evaluation, the SSA concluded that the total evaluated cost was \$10,613,000,000 for Oklahoma City ALC and \$10,707,100,000 for

Pratt & Whitney. The Oklahoma City ALC proposal maintained a cost advantage of \$94.1 million.<sup>37</sup>

The SSA conducted a further "best value analysis" of three areas that had been considered earlier. The SSA first reconsidered the \$41,804,513 representing the savings to other government workloads performed at the Oklahoma City ALC that had been credited to the public proposal. The SSA noted that the \$41.8 million savings was based on a strict reading of the RFP provisions as limiting such overhead savings to only 3 years of performance. The SSA stated that there were reasonable savings beyond the 3-year limit and added a credit based on a 10-year performance period. According to the SSA, the savings were to be allowed in full for the first 5 years and discounted over the second 5 years at 5 percent per year. The SSA explained that for the first 5 years, the Air Force flying hour program and force structure as well as workload projections are reasonably certain under the DOD's Future Year Defense Plan. Beyond that, according to the SSA, projected savings for the next 5 years should be discounted due to uncertainties about the workload. After 10 years, the SSA reasoned that the uncertainties in the workloads would be such that savings could not be reasonably projected. Based upon this reevaluation, the SSA concluded that the overhead savings credit should be increased to \$138.6 million.

Similarly, the SSA revisited the \$608.3 million credit given to Pratt & Whitney due to the potential savings over the 15-year performance period associated with the private offeror's proposed warranties and guarantees. The SSA noted that most of the savings would occur in the later performance years. The savings would further depend on Pratt & Whitney qualifying under the award term provision for additional performance time after the basic 7-year period. Therefore, the SSA concluded that recognition of savings beyond 10 years "would not be prudent" and reduced the savings adjustment for Pratt & Whitney from \$608.3 million to \$249 million.<sup>38</sup>

Also, the SSA reconsidered the depreciation adjustments applied to both proposals for equipment to be provided to private firms for use in the

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<sup>37</sup>The SSA's source selection decision document contains cost figures rounded to the nearest million dollars. Where it is clear from supporting documents, such as the SSAC report, what the exact figure is; we use the exact amount. Where it is not clear, we use the rounded figure from the SSA decision document.

<sup>38</sup>See the body of the report for a further discussion of the evaluation of the warranties and guarantees offered by both competitors.

performance of the workloads.<sup>39</sup> The SSA concluded that the \$2,338,359 adjustment added to the Pratt & Whitney proposal was appropriate based on the small amount of equipment that the firm was to be given. For the public offeror, the SSA noted that the depreciation for the F100 equipment was in Oklahoma City ALC's rates and that the \$15,707,232 depreciation adjustment to the public proposal for government equipment to be provided to Lockheed was reasonable. The SSA concluded that depreciation was "appropriately considered and each offeror was treated equitably."<sup>40</sup>

Finally, the SSA acknowledged Pratt & Whitney's strength under the small business factor, but concluded the strength would not be significant enough to overcome Oklahoma City ALC's cost advantage. A summary of the final cost adjustments made by the SSA follows.

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<sup>39</sup>One of the requirements for the competition set forth in 10 U.S.C. 2469a is that standards used to determine the depreciation of facilities and equipment provide, to the maximum extent practicable, identical treatment to public and private offerors. The amounts added to each proposal for depreciation were initially made as form number 2 adjustments.

<sup>40</sup>See the body of the report for a detailed discussion of the calculation of the depreciation.

	Oklahoma City ALC	Pratt & Whitney
<b>Total Customer Cost</b>	<b>\$10,164,013,176</b>	<b>\$11,559,347,993</b>
<b>Cost Adjustments</b>		
Form 1 Adjustments	135,038,131	0
Form 2 Adjustments	(106,669,239)	(233,923,488)
<b>Total "Dollarized" Adjustments</b>	<b>323,843,490</b>	<b>(259,082,225)</b>
<b>Total Evaluated Cost</b>	<b>\$10,516,225,557</b>	<b>\$11,066,342,080</b>

## Award

Based on the evaluation results, the SSA concluded that although Pratt & Whitney submitted a "slightly better technical proposal," the "dollarization" adjustments "effectively normalized" the differences between them. The SSA noted that after "dollarization" of the risks and projected savings, a significant difference remained between the projected cost of the Oklahoma City ALC proposal and that of Pratt & Whitney. Accordingly, the SSA selected Oklahoma City ALC as providing the best value to the Air Force because, in the SSA's view, the public offeror can capably meet the needs of the Air Force at a "far greater level of affordability."

## GAO Analysis

As discussed previously, several statutes govern the solicitation and award process for public-private competitions for the depot workloads of the closing San Antonio and Sacramento ALCs. In particular, 10 U.S.C. 2469a sets forth the elements that must be considered in selecting the public or private source to perform the workloads. Further, because the Air Force used the competitive acquisition system, the standards in chapter 137 of title 10 of the United States Code and the FAR apply to the extent they are consistent with 10 U.S.C. 2469a and the other applicable provisions relating to the outsourcing of depot workloads and to conversions of DOD functions to private-sector performance. See Newport News Shipbuilding and Dry Dock Co., cited above.

After reviewing the evaluation and selection records and speaking to relevant Air Force officials and to the public offeror, we found no basis to conclude that the procedures used in selecting the successful offeror deviated in any material respect from the section 2469a requirements or

other applicable laws or relevant provisions of the FAR. The Air Force issued a competitive solicitation in accordance with FAR parts 12 and 15, which provided for the participation of a public sector depot. We found no basis to conclude that the selection did not provide for a substantially equal opportunity for public and private offerors to compete without regard to performance location or that appropriate consideration was not given to noncost factors in the selection. Overall, the evaluation process was reasonable, fair, and the selection consistent with the evaluation scheme in the solicitation, the Depot Competition Procedures, and the CCH. While not affecting the legal sufficiency of the selection, we nevertheless identified several issues related to the estimates used for the cost evaluation. These issues are discussed in the body of the report.

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## Performance Location

Subsection (g) of 10 U.S.C. 2469a provides that our report on the competitive procedures is to include our view as to whether the procedures "provided substantially equal opportunity for public and private offerors to compete for the contract without regard to the location at which the workload is to be performed." In addition, 10 U.S.C. 2469a(d), which lists the requirements for the selection process, provides that a public or private competitor must be permitted to perform at the location of its choosing and a competitor is not to be given preferential treatment for, or be limited to, performing the workload in place or at any other single location.

As stated in our prior review of the solicitation for the San Antonio workloads, we found no provisions in the solicitation that designated a particular location at which performance was required or preferred or that evidenced a bias toward any particular performance location.<sup>41</sup> Similarly, in our review of the selection process, we found nothing to indicate that a particular performance location was required or that there was a bias toward a particular location in the evaluation of the proposals or the selection of Oklahoma City ALC.

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<sup>41</sup>Public-Private Competitions: Review of San Antonio Air Force Depot Solicitation, cited above. In this review, we also concluded that the solicitation's workload combination did not favor an offeror proposing to perform at the San Antonio facility.



In the selection, the SSA recognized under the transition area that Oklahoma City ALC would have to move the F100 workload from the closing San Antonio facilities to those at Oklahoma City. While the SSA was not concerned about the public offeror's ability to move the workload to its facilities, the SSA did assign Oklahoma City ALC a moderate risk because of its plan to hire and train 1,251 new workers; only 240 of which would be experienced F100 workers from the closing San Antonio ALC. On the other hand, Pratt & Whitney, which planned to perform most of the work at the closing San Antonio ALC, using for the most part the workers currently performing the workloads, was assigned low risk ratings under all of the transition factors.

As we understand the 10 U.S.C. 2469a provisions concerning performance location, they are to prevent the Air Force from creating an advantage for a particular location for reasons that are not reasonably related to performance or cost.<sup>42</sup> We believe that the SSA's concerns in the evaluation, which centered on Oklahoma City ALC's likely inability to attract more than more than 240 experienced San Antonio workers to relocate to Oklahoma City, were based upon legitimate performance considerations related to Oklahoma City ALC's transition plan and did not reflect bias towards performance at San Antonio.

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### Consideration of Noncost Factors

In accordance with 10 U.S.C. 2469a(g), our review of the selection process is to include our view as to whether "appropriate consideration was given to factors other than cost in the selection of the source for performance of the workload." We found no basis to conclude that the Air Force did not

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<sup>42</sup>The statement of managers accompanying the 1998 Authorization Act provides that the Air Force "would be expected to consider real differences between bidders in cost or capability to perform the work based on factors that would include the proposed location or locations of the workloads." (Conf. Rept. No.105-340 on H.R. 1119, at 717 (1997)).

give "appropriate consideration to noncost factors in the selection process."<sup>43</sup>

As discussed in our review of the San Antonio solicitation,<sup>44</sup> the selection was to be based upon "the best value to the Government." This selection scheme integrated a relative assessment of such noncost factors as transition, repair operations, and risk along with an extensive evaluation of the proposed costs. Under this evaluation method, the entity selected might or might not be the competitor whose proposal was determined to represent the lowest total evaluated cost.

The selection of Oklahoma City ALC was based on the SSA's assessment that the private offeror's "slightly better technical proposal" (a noncost consideration) was normalized in the "dollarization" of the respective strengths and weaknesses in each proposal. In the SSA's view, Pratt & Whitney's technical advantage was simply not enough to overcome Oklahoma City ALC's lower costs. The evaluation and selection record shows an intensive assessment of the noncost elements of each proposal. For example, the SSA considered Pratt & Whitney's "reliability centered maintenance" approach combined with its warranties and guaranties to be a benefit. The SSA also was impressed with the private offeror's plan to use a single logistics company to handle material for all of the workloads. On the other hand, the SSA concluded that Oklahoma City ALC's plan to perform in-house a number of repair processes currently contracted out was risky. The record shows that many of these aspects of the proposals, as well as others, were reflected as "dollarization" credits or penalties in the evaluation.

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<sup>43</sup>We consider noncost factors in this competition to include all of the elements that were evaluated under the transition and repair operation factors as well as such more general considerations as past performance. Cost factors include all of the elements under the solicitation's cost criterion. The Air Force "dollarized," or assigned an estimated dollar value to the benefit or detriment believed to be inherent in particular aspects of the offerors' technical or management approaches under the transition and repair operations factors. As we understand the provision in 10 U.S.C. 2469a(g) regarding the evaluation of noncost factors, it was to ensure that the Air Force placed the proper emphasis on matters such as an offeror's management approach to the transition of the workloads and its technical capability to perform. We do not think the "dollarization" of some of the results under these factors changes the nature of this portion of the evaluation, which was to measure technical and management aspects of a proposal, rather than cost. On the other hand, we believe the "dollarization" of the risk determined by the SSA to be inherent in Oklahoma City ALC's labor rates and material cost in its proposal was, in fact, the evaluation of a cost factor.

<sup>44</sup>Public-Private Competitions: Review of San Antonio Air Force Depot Solicitation, cited above.

While the competitor selected did represent the lowest evaluated cost to the government, as the examples show, the SSA and the other evaluators considered the relative merits of the technical and management approaches of the offerors. Thus, the record provides no basis for us to conclude that factors other than cost were not given appropriate consideration as required by 10 U.S.C. 2469a.

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Compliance With Other  
Applicable Provisions of  
10 U.S.C. 2469a

In addition to addressing the section 2469a provisions, including performance location and consideration given to factors other than cost, we reviewed the San Antonio competition to determine whether it otherwise complied with the requirements of section 2469a. As noted previously, 10 U.S.C. 2469a sets forth six requirements that must be satisfied in the San Antonio solicitation and selection process.<sup>45</sup>

In reviewing the evaluation and selection records in the context of the 10 U.S.C. 2469a requirements, we found that the six requirements were addressed during the evaluation and selection process. However, we found errors in the evaluation conducted in relation to two of the six requirements. The first concerned the depreciation calculations for government-furnished equipment.<sup>46</sup> The second concerned the evaluation of the fair market value of the government-furnished equipment provided to private entities.<sup>47</sup> The errors, which are discussed in the body of the report, did not affect the selection. Thus, we have no basis to conclude that the selection of Oklahoma City ALC deviated in any material from the requirements of 10 U.S.C. 2469a.

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Compliance With Other  
Applicable Provisions of  
Law

As stated earlier, the provisions of 10 U.S.C. 2461 requiring a notice to Congress of the savings to be achieved from a conversion of a DOD function to private-sector performance, and the requirement in 10 U.S.C. 2462 that DOD is to contract with the private sector if a private firm can provide the supply or service needed at a lower cost, apply generally to

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<sup>45</sup>As discussed earlier, in our prior review of the solicitation in Public-Private Competitions: Review of San Antonio Air Force Depot Solicitation, cited above, we concluded that all of the 10 U.S.C. 2469a requirements were specifically acknowledged in the solicitation.

<sup>46</sup>Section 2469a requires that the Air Force use cost standards for depreciation that provide, to the maximum extent practicable, identical treatment to public and private offerors.

<sup>47</sup>Section 2469a requires that the Air Force take into account the fair market value of any land, plant or equipment from a military installation that is to be used by a private offeror.

conversions of DOD functions such as these workloads. Whether the Air Force must comply with either statute in a particular competition depends upon whether a public or private offeror is selected. In this case, the Air Force selected the proposal of the public-sector offeror, Oklahoma City ALC, which represented the lowest total evaluated cost for the performance of the workloads. While the public offeror will use private firms to perform the T56 and TF39 workloads and other portions of the workload, Oklahoma City ALC submitted the proposal in its name and retains the overall responsibility for the performance of all workloads. Since the public offeror representing the lowest total evaluated cost was selected, the award was consistent with 10 U.S.C. 2462 and did not trigger the notice requirements of 10 U.S.C. 2461.<sup>48</sup>

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## Other Matters

We conclude that the evaluation and selection process did not deviate in any material respect from the provisions of 10 U.S.C. 2469a and other applicable provisions of law. While the overall selection was reasonable, we identified several issues related to the estimates used in the cost evaluation. These issues are discussed in the body of the report.

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<sup>48</sup>Similarly, we think that the requirement to certify the government estimate in section 8014 of the 1998 Appropriations Act is not triggered, as the award is one to the public-sector at the lowest evaluated cost. Further, we do not think that the evaluation and selection were inconsistent with section 8039 of the act regarding the use of "comparable estimates" for public and private offers.

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